



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

| | | | |
|------------------|---------------|----------------|-----------|
| Date Introduced: | 02/21/02 | Bill No: | AB 2508 |
| Tax: | Sales and Use | Author: | Dickerson |
| Board Position: | | Related Bills: | |

BILL SUMMARY

This bill would require that the conditional $\frac{1}{4}$ percent rate portion of General Fund sales and use revenues be transferred to the Antiterrorism Preparedness Fund, created by this measure.

ANALYSIS

Current Law

Under existing law, a tax is imposed on the sales price or gross receipts, as defined in Sections 6011 and 6012 of the Revenue and Taxation Code, respectively, of tangible personal property sold in this state.

Under existing law, the disposition of state sales and use tax revenues is governed by Revenue and Taxation Code Section 7102. That section currently provides that sales and use tax revenues are transferred in the following manner:

1) To the Public Transportation Account:

- a) All revenues, less refunds, derived under this part at the $4\frac{3}{4}$ percent rate, including the imposition of sales and use taxes with respect to the sale or use of motor vehicle fuel which would not have been received if the sales and use tax rate had been 5 percent and if motor vehicle fuel had been exempt from the sales and use taxes.
- b) All revenues, less refunds, at the $4\frac{3}{4}$ percent rate resulting from increasing after December 31, 1989, the rate of tax imposed pursuant to the Motor Vehicle Fuel License Tax Law on sales of gasoline. The gasoline tax has increased \$0.09 per gallon since December 31, 1989.
- c) All revenues, less refunds, at the $4\frac{3}{4}$ percent rate from the sales and use tax imposed upon diesel fuel, liquefied petroleum gas and natural gas.

2) To the Local Revenue Fund:

All revenues, less refunds, at the $\frac{1}{2}$ percent rate for allocation to cities and counties (Section 6051.2 and 6201.2).

3) To the Local Public Safety Fund:

All revenues, less refunds, at the $\frac{1}{2}$ percent rate (Section 35 of Article XIII of the California Constitution).

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

4) To the Traffic Congestion Relief Fund:

- a) All revenues, less refunds, at the 5 percent rate, resulting from the rate of tax imposed pursuant to the Motor Vehicle Fuel License Tax Law on sales of gasoline, less the amount already transferred to the Public Transportation Account.
- b) All revenues, less refunds, at the 5 percent rate resulting from the rate of federal motor vehicle fuel tax imposed pursuant to Section 4081 of Title 26 of the Internal Revenue Code.
- c) All revenues, less refunds, at the 5 percent rate, with respect to the sale, storage, use, or other consumption of motor vehicle fuel, less any amounts already transferred to the Public Transportation Account or the Traffic Congestion Relief Fund.

5) The balance to the General Fund.

Under existing law, Sections 6051.3 and 6201.3 of the Revenue and Taxation Code provide for the imposition of a 1/4 percent State General Fund sales and use tax rate. Sections 6051.45 and 6201.45 provide that the state sales tax rate in Section 6051.3 and 6201.3 shall not be operative in any calendar year beginning on or after January 1, 2002, if the Director of Finance determines both of the following:

- (a) The General Fund reserve is 3 percent of revenues excluding the revenues derived from the 1/4 cent sales and use tax rate.
- (b) Actual General Fund revenues for the period May 1 through September 30 equal or exceed the May Revision forecast, prior to the November 1 determination.

The 1/4 cent reduction shall be operative for each calendar year commencing on the next January 1 after the determination is made.

Proposed Law

This bill would amend Section 7101 of, and add Section 7101.5 to, the Sales and Use Tax Law to require that all revenues, less refunds, derived from the 1/4 percent sales and use tax rate imposed by Sections 6051.3 and 6201.3 to be transferred to the Antiterrorism Preparedness Fund, which this bill would create (this 1/4 percent tax is conditional – if the General Fund reserve falls below the required 3 percent as explained above, no revenues would be transferred to this newly created fund).

The bill would become effective January 1, 2003.

Background

Other measures have been introduced in the past providing for allocation of sales and use tax revenue to specific funds. Generally, these measures have been specific to the sales tax revenue from the retail sales of gasoline. One such measure that was successful recently earmarked the sales tax on gasoline for transportation purposes. Assembly Bill 2928 (Ch. 91, Stats. 2000) required certain sales and use tax revenues generated from the sale of gasoline and diesel fuel to be transferred to Traffic Congestion Relief Fund and the Transportation Investment Fund for the purpose of funding transportation projects in the state.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author in an effort to provide a mechanism to provide a reserve in the State Treasury for funding antiterrorism preparedness.
2. **Technical amendment.** Since Section 7102 of the Revenue and Taxation Code currently provides for the disposition of sales and use tax revenues, it is recommended that amendments be made to that section to provide for the transfer of revenues proposed by this measure. Amendments to Section 7101, as proposed by this measure, would no longer be necessary.
3. **Bill would not be problematic to implement.** If enacted, this measure would not materially affect the Board's administration of the Sales and Use Tax Law.

COST ESTIMATE

Any costs associated with the transfer of funds to the newly created fund are expected to be absorbable.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

The Department of Finance estimates that taxable sales for 2002-2003 fiscal year will be \$484.4 billion. The ¼% rate on these sales will produce \$1.2 billion.

Revenue Summary

The revenue shift from the General Fund to the Antiterrorism Preparedness Fund would amount to about \$1.2 billion annually.

| | | | |
|-----------------------|-------------------|----------|--------------|
| Analysis prepared by: | Sheila T. Sarem | 445-6579 | 3/15/02 |
| Revenue estimate by: | Dave Hayes | 445-0840 | |
| Contact: | Margaret S. Shedd | 322-2376 | |
| Is | | | 2508-1ss.doc |

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.